Aspects on the Role of Public Finances in Achieving Governmental Objectives

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Abstract

In modern age, the role of public finances is complex, these serving both to provide the resources to cover the costs and as possibility of state intervention in economy. Being an important economic category, finances are a pillar in achievement of the policy objectives of the state, the central element being the governmental power.

For the production and distribution of the public goods and services, for the benefit of community, the state establishes necessary funds, which allocates for priority targets so as to ensure an efficient spending of them, the way to build revenues and perform expenditures, achieving by means of the financial system of each country.

The paper brings forward aspects concerning the elements of structure, functions and role of public finances in the economy, important instrument of adjustment the economic and social life and removing economic imbalances generated by the game of market economy, left free.

Key words: public finances, taxes, subsidies, functions, role
J.E.L. Classification: E60; E69; G23; H20

1. Introduction

Public finances are an important economic category, a pivot in the achievement of the state's political objectives, the central element being the government power.

In the fulfilment of the obligations of production and distribution for the community, of the public goods and services, the state constitutes the necessary funds, which it distributes on priority targets so as to ensure their efficient spending.

The achievement of any activity depends on available funding opportunities, on the way to set up income and incur expenditure, achieved by means of the financial system of each country.

2. Concept, features

Directly related to the existence of the state, the science of finances - field of economics - means knowledge and procedures used to identify the necessary resources, the possibility to cover them.

The conception of the role of public finances has had different meanings over time. The classical liberal doctrine limits state's intervention in economic life, so that the public finances system assumed reduced public expenditure, covered by taxes and a balanced annual budget without deficit.

The global economic crisis at the beginning of last century significantly increased state's intervention in the economy, accompanied by increased public spending, taxes, and the budget deficits existence.

In modern times, the role of public finances is complex, as these do not only serve to provide the resources to cover the costs, but also express the possibility of state's intervention in the economy.

The neo-liberalism of modernity considers necessary to diminish role of the state in economic life, which would mean lowering taxation, elimination of subsidies.

According to the definition of the economic dictionary, public finances are "the financial flows in which the moneyed resources available to the state (central and local state administration) are formed, destined for public funding; they are materialized in the public budget" (Dobrotă N. – coordonator -, 1999, p.211).

In another speech, the definition of finances reads: "Public finances are mobilization and allocation of financial resources of the state, achieved in the distribution process of the Gross Domestic Product, with the help of certain specific methods and tools, in an appropriate legal framework in order to meet the social needs and influence the economic activity" (Zai P., Lazăr D., Inceu A., 2012, p.108).

The public finances include *revenues* in the form of monetary resources from fees and taxes, social security contributions, and the use of these revenues through their *spending* on certain destinations.

The flows of resources in the field of finances determine *social relations* among the players who generate it:

- those who contribute to the *establishment* of funds - legal entities and individuals earning income on the one hand and the state on the other;
- in case of the *distribution* of funds, the relations appear between the state and those to whom they are distributed- legal and natural persons – as beneficiaries.

As such, in the area of public finances, financial relations related to the **establishment** of public resources, are manifested, in monetary form and to their **distribution**. The public finances do not include categories such as loans, insurances or those belonging to economic units.

These relationships are conducted in the conditions of accumulation and distribution of monetary resources in the economy, dependent on the distribution of GDP – these are economic relations expressed in monetary form, as such, they are **financial relationships**.

Between the public and private finances one can observe some **distinctions** regarding their establishment and distribution, as exemplified in the table below (Table no. 1):

Table no. 1. Distinguishing elements between public finance and private finance

Features	Public finance	Private finance
⇒ Source and the way of resources procurement.	Incomes of individuals and legal persons – measures have coercive character, irredeemable operations.	Natural and legal persons - through exchange transactions regulated by contracts - based on the game of supply and demand in the market.
⇒ Purpose	For the benefit of community – requirements satisfaction.	The aim is the achievement and maximization of private agent profit.

Source: adaptation from Văcărel I., 2005. „Finanţe publice", http://www.academia.edu/6304389/Finante_publice_vacarel, uploaded by Crețu Lavinia

Thus, the main mission of public finances is to ensure the necessary resources for the state in achieving its objectives, in this way, the finances intervening in solving the economic and social problems.

2.1. Elements of structure

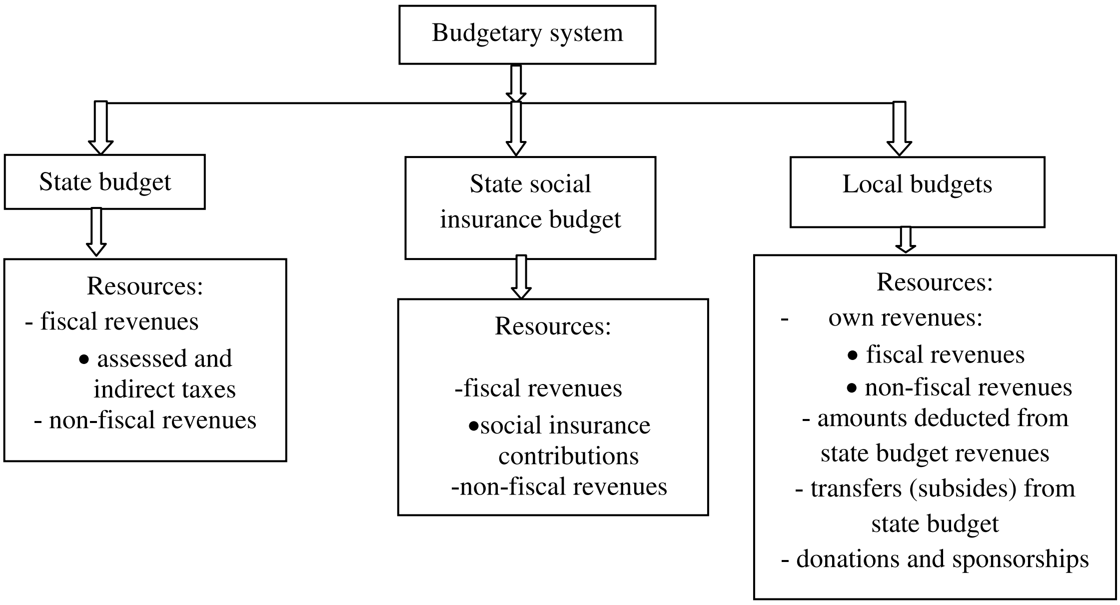
⇒ *The public financial resources* consist of monetary means destined for the accomplishment of the economic and social objectives, their character being, generally, limited to the demand for resources.

The level of public financial resources is determined by the volume of public expenditure, approved by the deciding authority, corresponding to a given period.

Considered in terms of the state budget, the structure of public resources includes financial resources belonging to: the state budget; local budgets; State social insurance; special funds.

The chart below shows the structure of *public financial resources* established on the following structure (Figure no. 1):

Figure no. 1. Structure of public financial resources



Source: adaptation from Moşteanu T., Vuţă M., Câmpeanu E., György A., Cataramă D. , 2005. Modul IV Finanţe Publice pag. 428-572, in Verboncu Ion (coordonator) et. al., *Management Public*, Editura Universitară, Bucureşti, 2005

⇒ *Public expenditure* materializes in the context of the distribution of public resources on approved destinations. This financial instrument "represents economic and social relations in monetary form, which occur between the State and the society's members at the occasion of the redistribution and use of public financial resources in order to fulfil its functions" (Moşteanu T., Vuţă M., Câmpeanu E., György A., Cataramă D., 2005, Finanţe publice p.442, *Management Public*, Verboncu Ion – coordonator - et. al.).

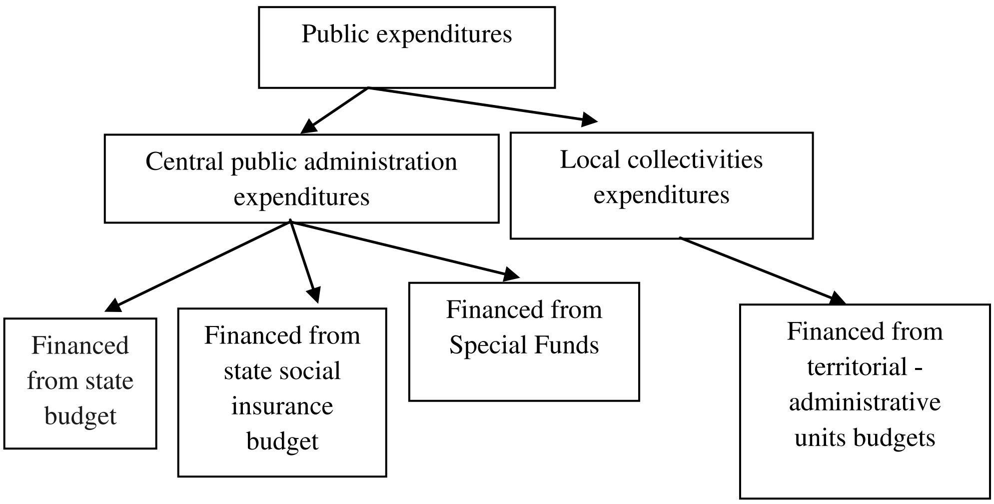
The structure of *public expenditure* includes, in correspondence with the sources of funding from which these are covered, the following categories, on destinations:

- related to central public administration (financed from the state budget, the state social securities, special funds)

  and
- related to local units (financed from the local budget) (Moşteanu T., Vuţă M., Câmpeanu E., György A., Cataramă D., 2005, Finanţe publice p.443, *Management Public*, Verboncu Ion – coordonator - et. al.).

The scheme below shows the structure of public expenditure and covering funding sources (Figure no. 2):

Figure no. 2. Structure of public expenditures



Source: adaptation from Moşteanu T., Vuţă M., Câmpeanu E., György A., Catarамă D., 2005. Modul IV Finanţe Publice pag. 428-572, in Verboncu Ion (coordonator) et. al., *Management Public* , Editura Universitară, Bucureşti, 2005

The structure of public expenditure expresses how monetary resources are distributed in order to fulfil the state's functions in terms of objectives pursued in the economic, social, cultural, defense field etc. .

3. Functions of public finances

Finances participation in the development of certain economic and social activities is performed by exercising certain functions, expression of the contribution brought to the development of the society.

"Finances' functions consist in the manifestation of the state's action and influence on the economic phenomena and processes through all financial levers in order to fulfil the social mission" (Zai P., Lazăr D., Inceu A., 2012, p.109).

The main functions assigned to public finance refer to the **distribution** function and to the **control** function (Zai P., Lazăr D., Inceu A., 2012).

⇒ **The distribution function** determined by the distribution of the gross domestic product, in monetary form, has two stages:

Establishment of public funds based on the relationships between legal entities, individuals and the state, the **contributors** being the economic entities (state-owned, private, mixed capital), public institutions, population, foreign residents who receive income in the country of reference.

The collection of money is made on behalf of taxation, of social security contributions, health, income from royalties, rental of state owned assets and other income.

The monetary funds are available to public authorities (central / local).

Distribution of public funds is made by the relevant public authorities to beneficiaries - individuals and legal entities, after the analysis of requirements of public resources.

Applications for financial resources requested by the central and local bodies are examined by the competent authorities and filtered by criteria established taking into account the availability of public funds.

The distribution consists in identifying the budgetary destinations aimed at the expenditure for achieving public objectives, on areas (health, culture, education, defence, public order and others).

This establishment and distribution of public resources in the redistribution of GDP process is an action that has a unitary and permanent character.

The two moments of the distribution function interact: the collection of financial resources is made in order to meet public needs and is followed by their distribution on destinations, but this second moment can only take place if the funds have been collected. As such, the two phases are two sides of a single process, which are interdependent.

⇒ **The control function** is generated by the distribution function, the control is exercised on the manner of collection and distribution of public resources. This activity is motivated by the fact that public financial resources belong to the society, and their management is performed by the state; it is important both their appropriate establishment, and their judicious distribution in order to meet the needs of the society, avoiding waste through inefficient spending and also ensuring discipline in managing public patrimony.

In the area of intervention of the control function, apart from distribution, there are also other areas of activity, namely:

- public sector production control;
- public sector exchange control, supply and demand of public sector products, commodity prices, profitability of the sector;
- control of consumption with respect to consumption of economic units and public institutions.

Control is exercised on areas of activity belonging to the public sector, which benefit from funds – the public resources - by specialized government bodies, the Court of Auditors, ministries, etc. (Zai P., Lazăr D., Inceu A., 2012).

The two functions, distribution and, respectively, control are carried out simultaneously and conditioned reciprocally. Thus, the control function is reflected due to the completion of financial transactions within the distribution function, but at the same time, it is favourable for her, by monitoring the manner in which such financial transactions, the establishment and distribution of monetary funds are carried out.

- ***The role of public finances***

Public finances have an important role in the development of the society ensuring the establishment and distribution of financial resources that the state uses to fulfil its duties.

The public finances system is an integral part of the public economy, contributing to the performance of the state's functions in organizing and development the social and economic activity.

There is a close relationship between the financial resources available to the state and their management, collection and distribution, the state's intervention in the economy, to cover social needs, the public finances being the expression of all those relationships.

Redistribution of income and of the wealth of individuals and legal entities through the channels of taxation, ensure the establishment of the resources necessary for the public sector, for accomplishing the social and economic needs, in the guise of budget allocations and other transfers of resources.

A correct dimensioning of the tax burden can lead to a balance between the potential of economic players to get significant income and that of their contribution to the state's budget resources.

Also, by providing financing for public economy, the public finances system contributes to stimulating the development of an economically weak area, to stimulating investment and growth.

4. Conclusions

In achieving the state's political objectives, the decisive role is held by public finances, an economic category through which the necessary resources and possibilities for their coverage are identified, a condition of the manifestation of State's intervention in the economy.

In the field of public finances, financial relationships necessary for the establishment of public resources in monetary form and for their distribution are manifested, the distribution being directly related to GDP.

Participation of finances in the implementation of certain economic and social activities is achieved by the exercise of its functions - an expression of the contribution brought to the society's development: *distribution function* – determined by the distribution of the gross domestic product in monetary form and the *control function* exercised on the manner of collection and distribution of public resources, the two functions being simultaneously manifested and conditioning each other.

By ensuring the establishment and distribution of financial resources, that the state uses to accomplish its objectives, finances bring a major contribution to solving economic and social problems.

By means of the financial instruments used, the state can intervene to remove economic imbalances caused by the market economy game, left free, adjusting growths or supporting the economic launch through these, the public finances constituting an element of regulation of the economic and social life.

5. Acknowledgment

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